Approved: 4-5-96
Date

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairperson Robin Jennison at 10:00 a.m. on March 26, 1996 in Room 514-S of the Capitol.

All members were present except:

Committee staff present: Alan Conroy, Russell Mills, Susan Wiegers, Legislative Research Department
Jim Wilson, Revisor of Statutes; Mike Corrigan, Revisor
Tim Kukula, Appropriations Secretary; Todd Fertig, Administrative Aide

Conferees appearing before the committee: Jerry Slaughter, Kansas Medical Society
Bob Wunsch, KU Medical Center

Others attending: See attached list

Chairman Jennison called the meeting to order by recognizing Representative Lowther to give the subcommittee Representative on KPERS matters. Chairman Jennison then recognized Representative Dean to give the minority Representative on KPERS matters. Representative Dean explained that the minority agrees with most of the majority Representative, but will not sign the Representative unless it contains a cost of living adjustment (Attachment 1).

A motion was made by Representative Lowther, seconded by Representative Gatlin to adopt the subcommittee Representative as submitted to the committee. The motion carried.

A motion was made by Representative Dean, seconded by Representative Gatlin, to delete Section 15 from the subcommittee Representative. The motion failed by a vote of 8 to 12.

Chairman Jennison opened the hearing on **SB 723** concerning the medical loan program. Chairman Jennison recognized Jerry Slaughter from the Kansas Medical Society to testify as a proponent of the bill (Attachment 2) and Bob Wunsch of Kansas University Medical Center to testify as a proponent of the bill. Bob Wunsch also proposed an amendment to the bill (Attachment 3).

Chairman Jennison closed the hearing on **SB 723**.

Chairman Jennison recognized further discussion on the KPERS subcommittee Representative.

A motion was made by Representative Helgerson, seconded by Representative Reinhardt, to include state legislators in the provisions outlined in Section 15 of the Representative.

A substitute motion was made by Representative Gatlin, seconded by Representative Lowther, to add a new section, calling for an interim study of the inclusion of all elected officials and appointed positions in the state in the conditions state's deferred compensation plan. The motion carried 12-3.

A motion was made by Representative Helgerson, seconded by Representative Reinhardt, to phase out legislator pensions and include all legislators in the 8% deferred compensation plan included in the subcommittee Representative. The motion failed 10-11.

Chairman Jennison recessed the committee at noon.

Chairman Jennison called the meeting back from recess at 1:30 p.m and recognized Representative Lowther to give the committee a Representative on a shared earnings alternative for retired members (Attachments 4 & 5).

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS, Room 514-S Statehouse, at 10:00 A.M. on CONTINUATION SHEET

A motion was made by Representative Lowther, seconded by Representative Wilk, to amend the subcommittee Representative to include Attachment 4 and Table 2 on Attachemnt 5.

After discussion, Representative Lowther and Representative Wilk changed the motion to include language stating that money will be distributed proportionally based on payroll. The motion carried 9 to 8.

Jack Hawn from KPERS responded to questions from the committee, as did staff members.

A motion was made by Representative Nichols, seconded by Representative Dean to clarify that 50% of the spillover shall be distributed. The motion failed 7 to 9.

A motion was made by Representative Gatlin, seconded by Representative Kline, to table **SB 383**. Motion failed.

A motion was made by Representative Bradley to adjourn the meeting. The motion failed for lack of a second.

A motion was made by Representative Lowther, seconded by Representative Wilk, to recommend **SB 383** favorably for passage.

A substitute motion was made by Hochhauser, seconded by Minor, to recommend **SB 383**, as amended favorably for passage with the inclusion of a CPI cost of living study. The motion carried 9 to 7.

The meeting was adjourned at 3:00 p.m.

The next meeting is scheduled for March 27, 1996.

HOUSE APPROPRIATIONS COMMITTEE

HOUSE OF REPRESENTATIVES

GUEST LIST

DATE: 3-26-96

NAME	ADDRESS	REPRESENTING
LINDA McGILL	TOPEKA	PMA
Kathi Sparks	"	DOB
Art Brown	Wichita	Mid-America Lumbermens
Bob Wunsch	Lawrence	KUMC
John Purvis	Meriden	myself as conservation officer
Mark Gaunt	Silver Lake	myself as Conservation Officer

Subcommittee Recommendations on KPERS Matters
House Appropriations Committee

March 25, 1996

Representative Jim Lowther
Subcommittee Chairperson

Representative Darlene Cornfield

Representative George Dean

Representative Fred Gatlin

Representative Rocky Nichols

3-26-96 House Appropriations Attachment 1

Subcommittee Recommendations on KPERS Matters
House Appropriations Committee

The Subcommittee heard testimony about different proposals for cost-of-living adjustments. The Subcommittee also heard the Buck Consultant's report on the actuarial audit of KPERS. The Subcommittee discussed one alternative to cost-of-living adjustments and reviewed information prepared by the KPERS staff to demonstrate how a portion of KPERS earnings and dividends could be dedicated to a special account designed to pay retirees a portion of the profits when investment income exceeds a certain threshold. The Subcommittee deferred action on this alternative plan and requested the Revisor's Office to draft legislation to implement a one-year interim plan to distribute a portion of KPERS earnings to retirees in lieu of a permanent cost-of-living adjustment.

The Subcommittee adopts the following recommendations for legislation and recommends that these items be amended into 1996 House Substitute for S.B. 383:

1. Make line of descendency for employees covered by the Judges Retirement System consistent with current KPERS and KP&F laws.

2. Authorize at the KPERS Board of Trustee's discretion contracting for legal representation by outside legal counsel, supplementing current law which requires representation in KPERS matters by the Attorney General.

3. Allow KPERS determination of qualified non-profit entities as KPERS eligible participating employers. Current law references only IRS determination.

4. Make participating employers responsible for any arrearage in correcting final employee contributions in the case of deaths or withdrawals.

5. Authorize purchase using the modified double or triple deduction method, in addition to the lump sum method (current law), for purchases of 1.75 percent participating service credit for military service and make technical changes as needed.

6. Clarify that purchases of 1 percent annuities for both out-of-state teaching and non-federal public employment service credit the by lump sum method (current law) would be limited to only full-time, permanent prior employment in such areas.

7. Provide that 1 percent annuities for both out-of-state teaching and non-federal public employment service credit may be purchased by modified double or triple deductions, in addition to lump sum purchases (current law).

8. Make the statutory limitation on the amount of earnings after retirement if returning to work for the same participating employer from which retired applicable to KP&F Tier II members to correct an omission in the 1993 law when only KP&F Tier I members originally were placed under the cap.

9. After 20 years of service for KP&F (the vesting period), if a member dies before attaining retirement age, allow spousal election either to receive the member's contributions (current law) or to select a retirement option, payable when the member first would have been eligible to retire and make technical changes as needed.

10. Make KPERS law consistent with current Kansas School Retirement System (KSRS) law to provide that if a retired member claims additional service credit after retirement, then the benefit is increased when determined justified, but no retroactive payments are made for the period prior to the claim determination.

11. Allow 1 percent prior service credit to be purchased by 16 current state employees at Emporia State University for the period during which they were previously employed by the Memorial Union Corporation when it was a separate non-participating employer.

12. Allow employees who are members of two different systems to retire under one system and to freeze accrual of additional benefits under the second system until retirement age for that system is reached. Current law requires retirement under both systems.

13. Modify current law regarding election of two Board members to clarify that only active and retired members are eligible to vote, and that inactive members are not eligible to vote or to serve on the KPERS Board of Trustees.

14. Repeal authorizing legislation for the KPERS Study Commission, effective as of July 1, 1997.

15. Close the current legislative session-only employees retirement plan, effective July 1, 1996, and offer any new employees hired after that date participation in the state's 8 percent deferred compensation plan; for current employees, allow them to elect either to continue under the current plan or to change to the deferred compensation plan on July 1, 1996.

MINORITY REPORT
Subcommittee Recommendations on KPERS Matters
House Appropriations Committee

March 25, 1996

Although we endorse most of the recommendations of the House Subcommittee, we will not sign the Subcommittee Report unless a cost-of-living adjustment is added. The failure of the report to include a cost-of-living adjustment for KPERS retired and disabled members, and their beneficiaries, is the second year that no COLA has been recommended by the House Subcommittee and we feel that it should have been included.

George R. Dean
Representative George Dean

Rocky Nichols
Representative Rocky Nichols

KANSAS MEDICAL SOCIETY
623 SW 10th Ave. • Topeka, Kansas 66612 • (913) 235-2383
WATS 800-332-0156 FAX 913-235-5114

March 26, 1996

TO: House Appropriations Committee

FROM: Jerry Slaughter
Executive Director

SUBJECT: SB 723; concerning the medical loan program

The Kansas Medical Society appreciates the opportunity to appear today in support of SB 723, which was introduced at our request. Unfortunately, due to a serious illness in his immediate family, Dr. Craig Concannon, a general internist from Beloit was not able to be with us today. He would have testified about the importance of the requested change to their rural community. The bill allows medical students who participate in the loan program at KU to fulfill their service obligation by practicing general surgery in a community of less than 12,000. The Kansas Medical Society and the Kansas Academy of Family Physicians support the bill.

The bill will probably not affect very many individuals, but for the few that do choose to go to a truly rural area, it will be a great help to those communities. The presence of a general surgeon helps support and keep primary care physicians in the rural areas. With a general surgeon to do C-sections, appendectomies, gall bladder removals and hernia repairs, for example, more of the care can be provided in the rural community, meaning less travel and expense for rural patients. In addition, the ability to provide surgical care in those areas helps support rural hospitals, which typically operate on very small margins.

We also support the amendment being offered by the University of Kansas Medical Center which clarifies that a general surgeon currently in training may qualify for the program and go to one of these rural areas which has a great need for such services.

We urge your support for SB 723. I would be happy to respond to any questions. Thank you for your consideration.

3-26-96 House Appropriations Attachment 2

Robert S. Wunsch

TESTIMONY BEFORE THE HOUSE APPROPRIATIONS COMMITTEE
Senate Bill 723

Thank you, Mr. Chairman. My name is Bob Wunsch and I am here today representing the University of Kansas Medical Center to testify concerning Senate Bill 723.

The original medical student scholarship program was enacted by the 1978 Legislature. The legislative purpose for the program was to provide financial incentives to medical students in return for a period of obligated service in Kansas upon completion of all post-graduate training. Physicians were required to practice medicine in an eligible service area within the state one year for each year they received financial aid while in medical school.

The 1992 Legislature enacted the Medical Student Loan Program which was designed to increase the attractiveness of the program. The focus on primary care was continued with the requirement that students who participate must apply for, enter and complete an approved residency training program in general pediatrics, general medicine, internal medicine, family practice, family medicine or emergency medicine.

SB 723, in its current form, would retroactively as well as prospectively, add "general surgery" to the list of residency training programs to be entered and completed in order to be in compliance with the requirements of the loan program.

The following is a suggested rewrite of (c)(5) in lines 32 thru 41, page 1 of SB 723, which defines a new service commitment area:

> ***or (5) any incorporated city of this state of less than 12,000 population based upon the most current legal census, excluding any such incorporated cities located in Douglas, Johnson, Sedgwick, Shawnee or Wyandotte counties for persons who after 1992 enter and complete an approved postgraduate residency training program in general surgery;***

By providing that his new service commitment area is for those who entered a general surgery residency after 1992 we have a date from which to work while at the same time it allows the desired retroactivity.

I will be pleased to respond to any questions.

g:\wp\rdp\96-legis.sm\s723app.tes

3-26-96 House Appropriations Attachment 3

STATE OF KANSAS

JAMES E. LOWTHER
REPRESENTATIVE, 60TH DISTRICT
LYON COUNTY
1549 BERKELEY ROAD
EMPORIA, KANSAS 66801

ROOM 183-W
STATE CAPITOL, TOPEKA 66612

TOPEKA

HOUSE OF
REPRESENTATIVES

COMMITTEE ASSIGNMENTS
CHAIRMAN: LEGISLATIVE POST AUDIT COMMITTEE
MEMBER: APPROPRIATIONS
APPROPRIATIONS SUBCOMMITTEES
KPERS AND RETIREMENT ISSUES—CHAIRMAN
BUDGET REFORM AND GOVERNMENT IMPACT
STATE HOSPITALS AND GENERAL GOVERNMENT

March 26, 1996

TO: House Committee on Appropriations

RE: Shared Earnings: A KPERS COLA Alternative for Retired Members

As part of this Session's review of KPERS issues, members of the KPERS Subcommittee and Appropriations Committee heard the presentation of the findings contained in the Actuarial Audit Report of the Kansas Public Employees Retirement System, prepared by Buck Consultants, Inc., under contract to the Legislative Coordinating Council. One recommendation about the financial condition of KPERS should be heeded by the 1996 Legislature, as well as by legislators serving in subsequent sessions:

"Future benefit increases are not advisable without additional funding (e.g., the continuation of ad hoc benefit increases for retirees will exacerbate the shortfall of contributions required and will become increasingly more expensive as the retiree population increases)."

As noted in the KPERS Subcommittee Report, several COLA proposals and one alternative to a COLA were presented for consideration. No recommendation was included in the Subcommittee Report since some Subcommittee members felt that any COLA was ill-advised and others felt that a COLA was required in the absence of any adjustment by the 1995 Legislature.

When presented with an alternative proposal, some of you will say that it does not do enough for our retired and disabled members who need a COLA. Others of you will say that it costs too much and that we should do nothing until we have repaired the unfunded liability in the KPERS Fund. This proposal represents a compromise, a middle ground between these two positions, the first side wanting to be compassionate and helpful to the retired public servants, and the other side wanting to be stewards and guardians of their underfunded pension plan in order to protect future generations of public servants in their retirement.

This alternative proposal which will be presented to you today is neither an automatic, annual payment, nor does it require future, annual funding increases be dedicated for paying lifetime increased benefits. The new proposal offers something to both sides in a COLA

Attachment 4

3-26-96 House Appropriations

argument. It is a pay-as-go plan that does not shift the cost of a COLA to future generations as has been the Legislature's practice since 1981. One of the greatest disservice which prior legislatures have done is to vote for COLAs year after year, creating an intergenerational debt which future workers and legislatures will be obliged to pay off. One of the primary causes of the projected, unfunded actuarial liability in the KPERS Fund is due to COLAs and increased benefits which have been built into the base benefit payments for retired members and their beneficiaries.

This year the Subcommittee has asked KPERS to provide two kinds of information about the cost of COLAs in order to disclose the full, up front one-time cost, compared with the more traditional fiscal note method of reporting how much a COLA would cost annually if funded over the next 36 years. For instance, H.B. 2758 calls for a postretirement benefit increase. The proposed legislation is intended to provide, effective July 1, 1996, that all members, who retired prior to July 1, 1995, would receive an increase of the greater of 3.0 percent or $.50 for each year of service credit plus $.50 for each year of retirement. The KPERS actuary has indicated the proposed legislation would have the following actuarial cost ramifications and in following current law would be first reflected in FY 1999 for State/School employers and calendar year 1999 for local units of government:

COST ESTIMATE
PROPOSED 3% / $.50/$.50 COLA

	STATE		LOCAL UNITS	
	Annual Cost (Dollars)	Annual Cost (% of Payroll)	Annual Cost (Dollars)	Annual Cost (% of Payroll)
STATE/SCHOOL	3,700,000	0.12	678,000	0.09
KP&F	57,000	0.24	434,000	0.24
JUDGES	69,000	0.38	-	-
TIAA	166,000	0.05	-	-
TOTAL	3,992,000		1,112,000	

After this original fiscal note (based on the future funding method) was heard by the Subcommittee, KPERS staff was asked to provide the total cost estimate when paid up front as a one-time cost. The total cost of a 3.0 percent permanent COLA is $ 87.2 million.

If the Legislature rejects the method of funding a COLA by charging future generations of taxpayers for retirement benefits paid to today's retired members, and if the Legislature also rejects as too expensive the cost of making a one-time contribution to finance a permanent COLA which increases the base benefits paid to all retired members and their beneficiaries, one alternative may be considered. The one briefly presented to the Subcommittee merits your attention, and hopefully an interim study that will report to the 1997 Legislature about whether this alternative method has merit enough to be made permanent. In the present, however, we may wish to adopt the following method for a ***one year trial*** in order to provide all retired members and beneficiaries, as well as disabled members, with a ***one-time bonus based on sharing the KPERS earnings***, which as most of you have heard, have yielded tremendous dividends and interest to KPERS, based on market performance over the past year. The proposal has the following parts:

- Create a new "Shared Earnings Account" in the KPERS Fund.

- When investment earnings exceed 10 percent in any fiscal year, transfer an amount equal to 0.5 percent of the ending market value of the Fund's investments from dividends and interest to the Shared Earnings Account.

- Appropriate a "Shared Earnings Payment" to be distributed in October to all eligible members as a one-time payment in addition to their regular monthly benefit.
- Provide that no more than 50 percent of available funds in the Shared Earnings Account could be paid out in the first fiscal year in order to carry over some funds to the second year so that if the 1997 Legislature decides to implement a permanent program, initial funding will be available in case the market does not perform above the 10 percent level.

- Restrict the "Shared Earnings Payment" to those who retired prior to the 1993 enhancements of retirement benefits.

Two tables are provided in Attachment 1 to show how this proposal would have operated over the period from FY 1987 to FY 1995. The only additional limitation on the program was a restriction that no more than 8.33 percent (equivalent to one month's benefit payment) of an individual's total benefit payment could be paid from the Shared Earnings Account (identified as a Spillover Fund in the attachment). You can see from the second table, for instance, that if this proposal were implemented by the 1996 Legislature, an amount of $29.6 million would be transferred into the Shared Earnings Account for payments during FY 1997. No more than 50 percent, or $14.8 million could be paid out in FY 1997. Since the current monthly KPERS payments total $28.9 million, a payment of $14.8 million represents an additional payment worth approximately 4.25 percent of annual benefit if distributed on an equal basis to all eligible members.

This alternative method to a COLA has the advantage of not compounding additional benefit payments since it would not be guaranteed each year and would depend entirely on the performance of the KPERS investment earnings. The benefit payment base would remain unchanged. This proposal does not guarantee a constant annual payment, nor does it guarantee that an annual payment has to be made. The shared earnings concept does provide a mechanism (the 50 percent limit) to smooth the pattern, and if the tables in Attachment 1 are examined, from FY 1987 to FY 1995 there would have been no year in which the additional shared earnings would not have been paid. When KPERS earnings are the highest, a large payment can be made. When earnings are down, the reserve feature would guarantee some funds from good years would be available in less favorable years for continued payments, but at a reduced level. By limiting the payment to a defined group, such as retirees prior to the 1993 benefit enhancements, the Legislature addresses their special concerns about sharing in the KPERS profits that will be used to pay other members who have yet to retire and to receive much greater retirement benefits that must be paid by increasing the contributions over the next 15 years.

I urge you to approve this new plan and to implement it for one year. In addition, authorize an interim study to report to the 1997 Legislature on its merits and also on how to improve the concept or some other alternative. This plan could give your constituents who are retired a share of the KPERS profits, as they have been asking us for the past several months since the news about KPERS earnings and investment performance has been so spectacular.

Thank you for your consideration of this plan.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

For the Fiscal Years Ending June 30th

Attachment 5

House Appropriations

3-26-96

SPILLOVER FUND PROJECTIONS (With Earnings)

Fiscal Year	Ending Market Value	Time Weighted Return	Spillover Fund Beginning Balance	Spillover Fund Contribution*	Fund Balance After Contribution	Spillover Fund Withdrawal***	Spillover Fund Earnings**	Spillover Fund Ending Balance	Total Benefits
1987	$3,242,708,881	11.3%	-	-	-	-	-	-	
1988	3,184,818,389	-0.6%	$0	$16,213,544	$16,213,544	($8,106,772)	(48,641)	$8,058,132	119,684,349
1989	3,594,842,243	12.0%	8,058,132	0	8,058,132	(4,029,066)	483,488	4,512,554	135,465,411
1990	3,873,644,470	12.1%	4,512,554	17,951,648	22,464,202	(11,232,101)	1,359,084	12,591,185	152,046,256
1991	3,969,527,540	0.3%	12,591,185	19,305,266	31,896,452	(14,199,603)	53,091	17,749,940	170,395,301
1992	4,550,049,263	12.8%	17,749,940	0	17,749,940	(8,874,970)	1,135,996	10,010,966	188,606,413
1993	5,071,789,474	14.7%	10,010,966	22,700,191	32,711,157	(16,355,579)	2,404,270	18,759,849	212,817,035
1994	5,187,464,228	2.3%	18,759,849	25,265,148	44,024,997	(22,012,498)	506,287	22,518,786	273,576,064
1995	5,926,030,363	17.6%	22,518,786	0	22,518,786	(11,259,393)	1,981,653	13,241,046	316,085,013
1996****	-	8.0%	13,241,046	29,563,947	42,804,993	(21,402,496)	1,712,200	23,114,696	

*In fiscal years when the time weighted return exceeds 10% a contribution is made to the Spillover Fund. The Spillover Fund contribution is calculated by multiplying the ending market value, less the Spillover Fund balance, by .5%.
**Spillover Fund earnings assume that the contribution and withdrawl occur on the first day of the fiscal year.
***The amount withdrawn is 50% of the Spillover Fund balance, subject to a cap of 8.33% of the total benefit payments for the current fiscal year.
****Fiscal year 1996 earnings are based on an assumed return of 8%.

SPILLOVER FUND PROJECTIONS W/O EARNINGS

Fiscal Year	Ending Market Value	Time Weighted Return	Spillover Fund Ending Balance	Spillover Fund Contribution*	Fund Balance After Contribution	Spillover Fund Withdrawal**	Spillover Fund Ending Balance	Total Benefits
1987	$3,242,708,881	11.3%	-	-	-	-	-	
1988	3,184,818,389	-0.6%	$0	$16,213,544	$16,213,544	($8,106,772)	$8,106,772	119,684,349
1989	3,594,842,243	12.0%	8,106,772	0	8,106,772	(4,053,386)	4,053,386	135,465,411
1990	3,873,644,470	12.1%	4,053,386	17,953,944	22,007,330	(11,003,665)	11,003,665	152,046,256
1991	3,969,527,540	0.3%	11,003,665	19,313,204	30,316,869	(14,199,603)	16,117,266	170,395,301
1992	4,550,049,263	12.8%	16,117,266	0	16,117,266	(8,058,633)	8,058,633	188,606,413
1993	5,071,789,474	14.7%	8,058,633	22,709,953	30,768,586	(15,384,293)	15,384,293	212,817,035
1994	5,187,464,228	2.3%	15,384,293	25,282,026	40,666,319	(20,333,160)	20,333,160	273,576,064
1995	5,926,030,363	17.6%	20,333,160	0	20,333,160	(10,166,580)	10,166,580	316,085,013
1996	-	-	10,166,580	29,579,319	39,745,899	(19,872,949)	19,872,949	

*In fiscal years when the time weighted return exceeds 10% a contribution is made to the Spillover Fund. The Spillover Fund contribution is calculated by multiplying the ending market value, less the Spillover Fund balance, by .5%.
**The amount withdrawn is 50% of the Spillover Fund balance, subject to a cap of 8.33% of the total benefit payments for the current fiscal year.

KPERS

March 21, 1996